

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>CHEBOYGAN COUNTY ROAD COMMISSION</b>	County <b>CHEYBOYGAN</b>
Audit Date <b>12/31/05</b>	Opinion Date <b>03/22/06</b>	Date Accountant Report Submitted to State: <b>05/24/06</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			<b>X</b>
Reports on individual federal financial assistance programs (program audits).			<b>X</b>
Single Audit Reports (ASLGU).			<b>X</b>

Certified Public Accountant (Firm Name) <b>STEWART, BEAUVAIS &amp; WHIPPLE PC</b>			
Street Address <b>1979 HOLLAND AVENUE</b>	City <b>PORT HURON</b>	State <b>MI</b>	ZIP <b>48060</b>
Accountant Signature <i>Stewart Beauvais &amp; Whipple</i>			Date <b>05/24/06</b>

**CHEBOYGAN COUNTY ROAD COMMISSION**

**A Component Unit of Cheboygan County, Michigan**

**ANNUAL FINANCIAL STATEMENTS**

**with Supplementary Information**

**FOR THE YEAR ENDED DECEMBER 31, 2005**

Stewart,  
Beauvais  
& Whipple P.C.

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CERTIFIED PUBLIC ACCOUNTANTS



**CHEBOYGAN COUNTY ROAD COMMISSION**  
**A Component Unit of Cheboygan County, Michigan**

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**DECEMBER 31, 2005**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of County Road Commissioners  
of Cheboygan County  
Indian River, Michigan

We have audited the accompanying basic financial statements of the Road Commission of Cheboygan County, Michigan, a component unit of Cheboygan County, Michigan as of December 31, 2005 and for the year then ended. These financial statements are the responsibility of the Road Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Road Commission of Cheboygan County, Michigan, as of December 31, 2005, and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report, dated March 22, 2006, on our consideration of the Road Commission of Cheboygan County, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting over compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis on pages 3-6 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying financial information listed as supplementary financial data in the Table of Contents is presented for purpose of additional analysis and is not a required part of the basic financial statements of the Road Commission of Cheboygan County, Michigan. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

  
Certified Public Accountants

March 22, 2006

# MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Cheboygan County Road Commission, we offer readers of these financial statements this narrative, overview and analysis of the financial activities of the Road Commission for the year ended December 31, 2005. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position.

## OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to provide a basis of understanding of the Cheboygan County Road Commission's basic financial statements. These basic financial statements comprise three components: (1) government-wide financial statements, (2) fund (governmental) financial statements, and (3) notes to the financial statements. Supplementary financial information is also provided for additional information purposes.

### Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Cheboygan County Road Commission's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Cheboygan County Road Commission's assets and liabilities, with the differences between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Road Commission is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

### Governmental Fund Financial Statements

Unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds financial statements with similar information presented for government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near term financing decisions.

Both the governmental fund balance sheet/statement of net assets and the governmental fund statements of revenues, expenditures, and changes in fund balance/ statement of activities provide a reconciliation to facilitate this comparison between governmental funds and the government-wide financial statements.

The Cheboygan County Road Commission adopts an annual appropriated budget for the operating fund. A budgetary comparison statement has been provided to demonstrate compliance with this budget.

## Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and governmental fund financial statements. The notes to the financial statements can be found on pages 10 to 21 of this report.

### FINANCIAL HIGHLIGHTS

#### Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. As shown on the chart below, the Road Commission's assets exceeded liabilities by \$20,935,983 at December 31, 2005.

The net assets are separated into three major components, investment in capital assets of \$19,141,811 or 91.43% of net assets, restricted net assets of \$1,364,250 or 6.52% and finally unrestricted net assets of \$429,922 or 2.05%. The investment in capital assets of the Road Commission reflects its investment in capital assets (i.e. land, buildings, vehicles, equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. The Road Commission used these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Road Commission's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The restricted net assets are the net assets that resulted from Primary and Local Road activities that are restricted by the Michigan Department of Transportation to be used on the respective Primary and Local Roads. The remaining balance of unrestricted net assets may be used to meet the Road Commission's ongoing obligations to citizens and creditors.

At the end of the current year, the Road Commission is able to report positive balances in all three categories (invested in capital assets, net of related debt, and unrestricted net assets). The Road Commission's combined net assets increased \$1,020,363 from a year ago.

The following table presents a comparison of the net assets at December 31, 2005 and 2004 in a condensed format:

Condensed Statement of Net Assets	2005	2004
Assets -		
Current and other unrestricted assets	\$ 2,837,056	\$ 2,958,375
Capital Assets	<u>22,146,811</u>	<u>21,156,905</u>
Total Assets	<u>24,938,867</u>	<u>24,115,280</u>
Liabilities -		
Long-term liabilities	3,335,365	3,387,610
Other liabilities	<u>712,519</u>	<u>812,050</u>
Total Liabilities	<u>4,047,884</u>	<u>4,199,660</u>
Net Assets -		
Invested in capital assets, net of related debt	19,141,811	18,096,905
Restricted	1,364,250	1,340,159
Unrestricted	<u>429,922</u>	<u>478,556</u>
Total Net Assets	<u>\$ 20,935,983</u>	<u>\$ 19,915,620</u>

The following table presents a comparison of revenues expenses and changes in net assets for the year ended December 31, 2005 and 2004 in a condensed format:

<b>Condensed Statement of Activities</b>	<u>2005</u>	<u>2004</u>
Revenues		
Federal Sources	\$ 628,557	\$ 1,107,720
State Sources	4,344,825	4,317,951
Local Sources	421,416	570,673
Charges for Services and Other	<u>1,996,835</u>	<u>2,062,964</u>
	<u>7,391,633</u>	<u>8,059,308</u>
Expenses		
Maintenance	4,890,205	5,209,240
Administration	213,194	336,715
Equipment (net)	( 135,167)	( 264,635)
Other	124,422	82,192
Depreciation	<u>1,278,616</u>	<u>1,592,522</u>
	<u>6,371,270</u>	<u>6,956,034</u>
Change in Net Assets	<u>\$ 1,020,363</u>	<u>\$ 1,103,274</u>

### **Financial Analysis of Governmental Fund Financial Statements**

As noted earlier, the focus of the governmental fund financial statements is to provide information on the near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Road Commission's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current year, the Road Commission reported an ending fund balance of \$1,945,889, a decrease of \$45,667 from the prior year. Approximately 29.89% or \$581,639 of the fund balance constitutes unreserved fund balance, which is available for spending at the Road Commission's discretion. The remainder of the fund balance of \$1,364,250 is reserved for expenditures related to primary and local roads as required by the Michigan Department of Transportation.

### **BUDGETARY HIGHLIGHTS**

The Road Commission amended its 2005 budget to reflect status changes in preservation/structural improvements and maintenance projects. The final budget was \$265,298 greater in revenue, and \$256,301 greater in expenditures than the original budget primarily for these reasons. The actual adjusted 2005 revenues were approximately \$30,406 less than the amended budget, which is .410% under budget. The actual adjusted expenditures were \$24,256 more than the amended budget, which was .327% over budget. The actual excess of revenues and other sources compared to expenditures was \$54,664 less than the amended budget amount.



## CAPITAL ASSETS AND DEBT ADMINISTRATION

**Capital Assets** - The Road Commission had \$22,146,811 in capital assets at the end of the year, representing an increase of \$989,906 or 4.68% from the previous year. The reason for the increase from the previous year was the capitalization of preservation/structural improvements funded by federal, state and local revenues. A summary of capital assets net of accumulated depreciation at December 31, 2005 in comparison to the previous year is as follows:

	<u>2005</u>	<u>2004</u>
Land, Improvements and Right-of-Ways	\$ 7,605,220	\$ 7,266,491
Buildings and Improvements	2,554,024	2,586,451
Equipment	1,473,361	1,621,343
Depletable Assets	11,753	11,753
Infrastructure	<u>10,502,453</u>	<u>9,670,867</u>
Total Capital Assets	<u>\$ 22,146,811</u>	<u>\$ 21,156,905</u>

Additional information on the Road Commission's capital assets activity may be found in Note 7 to the financial statements.

**Long-Term Liabilities** – During 2004, the Road Commission issued \$3,060,000 in bonds. The bond issue is backed by the full faith and credit of Cheboygan County. The total debt was issued in anticipation of and payable from State collected taxes returned to the Road Commission from the Michigan Transportation Fund for highway construction, construction and work incidental thereto. A balance of the Motor Transportation Debt at December 31, 2005 is as follows:

Michigan Transportation Bonds – Series 2004	\$3,005,000
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Additional information on the Road Commission's long-term liabilities may be found in Note 8 to the financial statements.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The majority of Commission revenue streams are fairly stable. Long-term state fiscal crises are affecting local abilities to provide increased levels of maintenance. Long-term crises are also affecting cost sharing programs currently in effect with township transportation partners.

Our 2006 budget is programmed for revenues decreasing in most areas by a total of approximately \$337,000. Expenditures will decrease in road maintenance under our state trunkline agreement with MDOT and equipment expenditures after reimbursement from rental charges. It is anticipated our fund equity will remain the same at December 31, 2006 as 2005.

## CONTACTING THE ROAD COMMISSION MANAGEMENT

This financial report is designed to provide a general overview of the Cheboygan County Road Commission's finances and to show accountability. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Cheboygan County Road Commission, 5302 South Straits Hwy, Indian River, Michigan, 49749.

## **BASIC FINANCIAL STATEMENTS**

**CHEBOYGAN COUNTY ROAD COMMISSION**  
**A Component Unit of Cheboygan County, Michigan**

**GOVERNMENTAL FUND BALANCE SHEET/STATEMENT OF NET ASSETS**  
**DECEMBER 31, 2005**

	Governmental Fund	Adjustments (Note 2)	Statement of Net Assets
<b>ASSETS</b>			
Cash and cash equivalents	\$ 768,007	\$ -	\$ 768,007
Due from other governmental units -			
State	870,238	-	870,238
Local	44,700	-	44,700
Accounts receivable	438	-	438
Prepaid expenditures/expenses	-	230,874	230,874
Inventory	922,799	-	922,799
Capital assets, net of accumulated depreciation			
Assets not being depreciated	-	7,605,220	7,605,220
Assets being depreciated	-	14,541,591	14,541,591
Total Assets	<u>\$ 2,606,182</u>	<u>\$ 22,377,685</u>	<u>\$ 24,983,867</u>
<b>LIABILITIES AND FUND EQUITY</b>			
<b>Liabilities:</b>			
Accounts payable	\$ 92,060	\$ -	\$ 92,060
Accrued liabilities	100,745	-	100,745
Accrued interest payable	-	52,226	52,226
Due to other governmental units	7,591	-	7,591
Advances and deposits	459,897	-	459,897
Bonds and notes payable, due within on year	-	85,000	85,000
Bonds and notes payable, due in more than one year	-	2,920,000	2,920,000
Long-term accrued vacation and sick	-	330,365	330,365
Total Liabilities	<u>660,293</u>	<u>3,387,591</u>	<u>4,047,884</u>
<b>Fund Balance:</b>			
Fund Balance -			
Reserved -			
Primary/Local Roads	1,364,250	( 1,364,250)	-
Unreserved -			
Undesignated	581,639	( 581,639)	-
Total Fund Balance	<u>1,945,889</u>	<u>( 1,945,889)</u>	<u>-</u>
Total Liabilities and Fund Balance	<u><u>\$ 2,606,182</u></u>		
<b>Net Assets:</b>			
Invested in capital assets net of related debts		19,141,811	19,141,811
Restricted -			
Primary/Local Roads		1,364,250	1,364,250
Unrestricted		429,922	429,922
Total Net Assets		<u><u>\$ 20,935,983</u></u>	<u><u>\$ 20,935,983</u></u>

See Notes to Financial Statements

**CHEBOYGAN ROAD COMMISSION**  
**A Component Unit of Cheboygan County, Michigan**

**STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE/STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Governmental Fund	Adjustments (Note 2)	Statement of Activities
<b>Revenues:</b>			
Permits	\$ 57,114	\$ -	\$ 57,114
Intergovernmental -			
Federal sources	628,557	-	628,557
State sources	4,344,825	-	4,344,825
Local sources	421,416	-	421,416
Charges for services	1,915,747	-	1,915,747
Interest and rents	23,700	-	23,700
Other	274	-	274
	<hr/>	<hr/>	<hr/>
Total Revenues	7,391,633	-	7,391,633
	<hr/>	<hr/>	<hr/>
<b>Expenditures/Expenses:</b>			
Current -			
Primary preservatons/ structural improvements	755,217	( 755,217)	-
Local preservation/ structural improvements	949,326	( 949,326)	-
Primary maintenance	1,224,342	4,330	1,228,672
Local maintenance	1,789,322	4,331	1,793,653
State maintenance	1,867,880	-	1,867,880
Administrative	222,477	( 9,283)	213,194
Equipment	2,527,464	( 731,395)	1,796,069
Less equipment rental			
charged to other activities	( 1,931,236)	-	( 1,931,236)
Depreciation	-	1,278,616	1,278,616
Capital Outlay	564,378	( 564,378)	-
Less: depreciation credit			
and retirements	( 744,786)	744,786	-
Debt Service -			
Principal retirement	55,000	( 55,000)	-
Interest	157,916	( 33,494)	124,422
	<hr/>	<hr/>	<hr/>
Total Expenditures/Expenses	7,437,300	( 1,066,030)	6,371,270
	<hr/>	<hr/>	<hr/>
Excess of revenues over (under) expenditures/expenses	( 45,667)	1,066,030	1,020,363
	<hr/>	<hr/>	<hr/>
Fund Balance/Net Assets at January 1, 2005	1,991,556	17,924,064	19,915,620
	<hr/>	<hr/>	<hr/>
Fund Balance/Net Assets at December 31, 2005	\$ 1,945,889	\$ 18,990,094	\$ 20,935,983
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See Notes to Financial Statements

**CHEBOYGAN COUNTY ROAD COMMISSION**  
**A Component Unit of Cheboygan County, Michigan**

**STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Positive (Negative)
<b>Revenues:</b>				
Permits	\$ 50,000	\$ 55,000	\$ 57,114	\$ 2,114
Intergovernmental -				
Federal sources	745,575	618,877	628,557	9,680
State sources	4,406,549	4,367,796	4,344,825	( 22,971)
Local sources	727,241	424,010	421,416	( 2,594)
Charges for services	1,222,376	1,934,589	1,915,747	( 18,842)
Interest and rents	5,000	21,311	23,700	2,389
Other	-	456	274	( 182)
Total Revenues	<u>7,156,741</u>	<u>7,422,039</u>	<u>7,391,633</u>	<u>( 30,406)</u>
<b>Expenditures:</b>				
Current -				
Primary preservation/ structural improvements	797,864	747,817	755,217	( 7,400)
Local preservation/ structural improvements	1,339,570	931,780	949,326	( 17,546)
Primary maintenance	1,155,062	1,198,782	1,224,342	( 25,560)
Local maintenance	1,754,486	1,778,244	1,789,322	( 11,078)
State maintenance	1,222,376	1,889,870	1,867,880	21,990
Administrative	235,467	315,480	222,477	93,003
Equipment - net	-	339,936	596,228	( 256,292)
Capital Outlay - net	439,000	( 1,783)	( 180,408)	178,625
Debt Service	212,916	212,916	212,916	-
Total Expenditures	<u>7,156,741</u>	<u>7,413,042</u>	<u>7,437,300</u>	<u>( 24,258)</u>
Excess of revenues and other sources over expenditures	-	8,997	( 45,667)	( 54,664)
Fund Balance at January 1, 2005	<u>1,991,556</u>	<u>1,991,556</u>	<u>1,991,556</u>	<u>-</u>
Fund Balance at December 31, 2005	<u>\$ 1,991,556</u>	<u>\$ 2,000,553</u>	<u>\$ 1,945,889</u>	<u>\$ ( 54,664)</u>

See Notes to Financial Statements

**CHEBOYGAN COUNTY ROAD COMMISSION**  
**A Component Unit of Cheboygan County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

The accounting methods and procedures adopted by the Cheboygan County Road Commission conform to accounting principles generally accepted in the United States of America as applied to governmental entities. The following Notes to the Financial Statements are an integral part of the Road Commission's basic financial statements.

**A. Description of Road Commission Operations –**

The Cheboygan County Road Fund, referred to as the Road Commission, is a Component Unit of the County of Cheboygan, Michigan, and is used to control the expenditure of revenues from the State distribution of gas and weight taxes, Federal Financial Assistance, reimbursements from the Department of State Highways for work performed by the County on State trunklines and contributions from other local units of government for work performed by the Road Commission workforce. The Road Fund is the only fund of the Road Commission.

The Road Commission, which is established pursuant to the County Road Law (MCL224.1), operates under an elected Board of three (3) County Road Commissioners who establish policies and review operations of the Road Commission. The Road Commission provides service to nineteen (19) Townships in Cheboygan County and maintains 1,127 miles of state, local and primary roads.

**B. Measurement Focus, Basis of Accounting and Financial Statement Presentation –**

The government-wide financial statement columns (i.e., statement of net assets and statement of activities) are reported using the economic resource measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grant and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized when it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

**C. Assets, Liabilities, and Fund Balance or Net Assets –**

**Cash And Cash Equivalents** - Cash equivalents are short-term investments that are readily convertible to cash or have a maturity date of 90 days or less from the date of purchase. Cash equivalents include investment trust funds and are recorded at cost, which approximates market value. The investment trust funds have the general characteristics of demand deposit accounts in that the Road Commission may deposit additional cash at any time and effectively may withdraw cash at any time without prior notice or penalty.

**CHEBOYGAN COUNTY ROAD COMMISSION**  
**A Component Unit of Cheboygan County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):**

**Inventories** – Inventories of road materials and equipment parts are recognized using the consumption method (inventories are recorded as expenditures when they are used). Inventories are stated at average cost.

**Prepaid Items** – Certain payments to vendors (particularly for insurance coverage) reflect costs that are applicable to a future period and are recorded as prepaid items.

**Capital Assets** – Capital assets, which include property, plant, equipment, and infrastructure are reported in the government-wide (statement of net assets) financial statements. Capital assets for land, buildings and improvements and all equipment except road equipment are defined by the Road Commission as assets estimated useful life in excess of 2 years. No minimum cost is used to record road equipment capital assets and infrastructures are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are recorded in the governmental fund statements as capital expenditures at the time of purchase.

Depreciation is computed on the sum-of-the-years digits method for road equipment, and straight-line method for all other fixed assets over the estimated useful life of the related asset.

The estimated useful lives are as follows:

Buildings and Improvements	40 years
Equipment	5- 8 years
Roads	8-30 years
Bridges	25-50 years

Infrastructure is reported retrospectively from 1980, except for right-of-ways and bridges which are required to be reported despite the date of purchase. Roads are removed from the capital assets at the time the group of individually recorded roads have been fully depreciated.

Depletion is calculated as the amount of prorated cost or other indicated value assigned to the extracted portion of a natural resource.

The Uniform Accounting Procedures Manual for Michigan County Road Commissions provides for recording depreciation and depletion in the governmental fund statements as a charge to various expenditures accounts, and a credit to a depreciation/depletion credit account. Accordingly, the annual depreciation/depletion expenditures do not affect the available operating equity of the governmental fund statements.

**CHEBOYGAN COUNTY ROAD COMMISSION**  
**A Component Unit of Cheboygan County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):**

**Advances From The State Of Michigan** - The State of Michigan advances funds on a State maintenance agreement it has with the Cheboygan County Road Commission for specified maintenance, which the Road Commission will perform during the year, and for equipment purchases. These advances are considered current liabilities because they are subject to repayment annually upon audit by the State of Michigan.

**Accrued Vacation And Sick** - In accordance with contracts negotiated with the various employee groups of the Road Commission, individual employees have a vested right upon termination of employment to receive payments for unused sick leave and vacation under formulas and conditions specified in the contracts. All amounts vested are accrued in the government-wide statements (statement of net assets).

**Deferred Revenues** - In both the government-wide and the fund financial statements revenue received or recorded before earned is recorded as deferred revenue. In addition, in the governmental fund statements revenues that are not both measurable and available are recorded as deferred revenues.

**Equipment Rental** - The Michigan Department of Transportation requires that the cost of operating equipment, including depreciation, be charged (allocated) to the various activities. The effect of this allocation is offset to equipment expenditures/expenses.

**Estimates** - In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS:**

**A.** Explanation of differences between the governmental fund statement and the government-wide statement of net assets (Page 8).

Fund Balance – governmental fund	\$ 1,945,889
Capital assets used in the governmental fund activities that are not financial resources and therefore not reported in the governmental fund financial statements	
Add – capital assets	34,968,582
Deduct – accumulated depreciation	( 12,821,771)
Long-term liabilities that are not due in the current period therefore not reported in the governmental fund statements	( 3,335,365)
Accrued interest payable on long-term liabilities not reported in the governmental fund statements	( 52,226)



**CHEBOYGAN COUNTY ROAD COMMISSION**  
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**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005**

**NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS - (cont'd):**

Prepaid expenses not reported in the governmental fund statements	\$ <u>230,874</u>
Net Assets	\$ <u>20,935,983</u>

- B.** Explanation of differences between the governmental fund statement of revenues, expenditures and changes in fund balance and the government-wide statement of activities (Page 9).

Excess of revenues over expenditures - governmental fund statement	\$( 45,667)
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The governmental fund statements report capital outlay as expenditures, however, in the government-wide Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense

Add – capital outlay and infrastructure	2,268,921
Deduct – retirements	( 399)
Deduct – depreciation	( 1,278,616)

Interest expense adjustment for accrual reported in the government-wide Statement of Activities when the liability is incurred and reported in the governmental fund statements only when payment is due	33,494
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Prepaid expense adjustment not reported in the governmental fund statements	( 9,615)
---	----------

Principal retirement	55,000
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Accrued vacation and sick time expenses not reported in the governmental fund statements because they will not be paid with current financial resources	( <u>2,755</u> )
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Change in Net Assets	\$ <u>1,020,363</u>
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**CHEBOYGAN COUNTY ROAD COMMISSION**  
**A Component Unit of Cheboygan County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005**

**NOTE 3 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:**

**Auditing and Reporting –**

The audit was performed in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States as described in the Independent Auditor's Report, but, also with the standards as provided in Act No. 71 of Public Acts of 1919, Section 21.41 of the Michigan Compiled Laws.

The financial statements were prepared in accordance with accounting principles generally accepted in the United States of America as described in the Independent Auditor's Report, but also with applicable rules of the Michigan State Department of Transportation.

**Budgetary Compliance –**

The Road Commission Manager prepares from data submitted by the administrative staff, a proposed operating budget for the calendar year commencing January 1. The operating budget includes proposed expenditures and resources to finance them.

Prior to December 31, the proposed budget is presented to the Board of County Road Commissioners. The Board holds a public hearing and may add to, subtract from or change appropriations. The budget is then legally enacted through passage of a Board of County Road Commissioners Resolution.

The Road Commission's approved budget was adopted at the activity level. This is the legally enacted level under the State of Michigan Uniform Budgeting and Accounting Act since amendments to the budget at the activity level must be approved by the Board of County Road Commissioners. The Road Commission does not employ encumbrance accounting as an extension of formal budgetary integration. All annual appropriations lapse at year end.

Michigan Public Act 621 of 1978, Section 18(1) as amended, provides that a governmental unit shall not incur expenditures in excess of the amount appropriated at the legally adopted level. During the year ended December 31, 2005, the Road Commission had expenditures over budget as reported on the Statement of Governmental Fund Revenues, Expenditures and Changes in Fund Balance – Budget and Actual.

**CHEBOYGAN COUNTY ROAD COMMISSION**  
**A Component Unit of Cheboygan County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005**

**NOTE 4 - DEPOSITS AND INVESTMENTS:**

As of December 31, 2005, the carrying amount of deposits is as follows:

Cash on Hand	
Petty Cash	\$ 300
Deposits with Financial Institutions	
Imprest Checking	85,312
Deposits Maintained with County Treasurer	
Savings	322,589
Certificates of Deposit	<u>359,806</u>
	<u>\$ 768,007</u>

The Uniform Accounting Procedure Manual for Michigan County Road Commissions provides that the County Treasurer maintain the cash of the Road Commission. All Road Commission receipts are deposited with the Cheboygan County Treasurer's Office, and in order to make disbursements, the Cheboygan County Road Commission requests the County Treasurer to transfer the required funds to an imprest vendor or payroll checking account. The investing of cash is performed by the County Treasurer.

**Deposits –**

As a component unit of Cheboygan County, all Road Commission cash and cash equivalents are a part of the accounts maintained by Cheboygan County at banking institutions insured by federal depository insurance. However, the Road Commission, by state statute, has funds allocated to it by the State of Michigan for its exclusive use and control. As a result, funds of the Road Commission have separate insurance coverage.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for savings deposits and demand deposits up to \$100,000 each. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000.

The Road Commission's deposits consist of demand accounts. At December 31, 2005, the carrying amount of the Road Commission's deposits is \$500, and the bank balance is \$813,140, in which \$330,745 is FDIC insurance, and the remaining \$482,395 exposed to credit risk since it is uninsured and uncollateralized.

The Road Commission believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the County evaluates each financial institution and assesses the level of risk. The County uses only those financial institutions with an acceptable estimated risk level as depositories.

**CHEBOYGAN COUNTY ROAD COMMISSION**  
**A Component Unit of Cheboygan County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005**

**NOTE 5 - INVENTORIES:**

The Inventory balance of \$922,798 at December 31, 2005 consisted of \$634,041 of road materials and \$288,758 of equipment parts and materials.

**NOTE 6 - FEDERAL AWARDS:**

It is required by the Michigan Department of Transportation (MDOT) that Road Commissions report total federal awards for Highway Research, Planning and Construction pertaining to their County. However, only the federal awards applicable to force account expenditures is required to be audited for compliance under the Single Audit Act through Road Commission procurement. The reason for this requirement is that the Road Commission is required to have accounting and administrative control over the force account portion while the balance is administered by MDOT.

During the year ended December 31, 2005, the Road Commission of Cheboygan County had less than \$500,000 of force account expenditures applicable to federal awards (local force revenue). As a result, an audit for compliance under the Single Audit Act has not been performed.

The federal revenues of \$628,557 represents the Department of Transportation Federal Highway grant money expended on public road improvement projects which were administered by the Michigan Department of Transportation, however required to be reported by the Road Commission.

**NOTE 7 - CAPITAL ASSETS:**

Capital assets activity for the current year was as follows:

	Balance January 1, 2005	Additions	Deletions	Removals	Balance December 31, 2005
Capital Assets, not being depreciated –					
Land	\$ 258,755	\$ -	\$ -	\$ -	\$ 258,755
Land Improvements	6,901,591	357,566	-	-	7,259,157
Right of Ways	87,308	-	-	-	87,308
Construction in Progress	18,837	-	( 18,837)	-	-
Total Capital Assets, not being depreciated	<u>7,266,491</u>	<u>357,566</u>	<u>( 18,837)</u>	<u>-</u>	<u>7,605,220</u>
Capital Assets, being depreciated –					
Buildings and improvements	3,251,806	118,029	-	-	3,369,835
Road Equipment	6,414,735	421,928	( 45,437)	-	6,791,226
Shop Equipment	231,539	10,292	( 798)	-	241,033
Office Equipment		79,855	8,862	-	-
Engineering equipment	60,226	5,267	( 769)	-	64,724
Yard and storage	194,224	-	-	-	194,224
Infrastructure -					
Roads	10,646,120	985,146	-	( 143,536)	11,487,730
Bridges	4,721,437	380,668	-	( 3,317)	5,098,788
Depletable assets –					
Gravel pits	27,085	-	-	-	27,085
	<u>\$ 25,627,027</u>	<u>\$ 1,930,192</u>	<u>\$ ( 47,004)</u>	<u>\$ ( 146,853)</u>	<u>\$ 27,363,362</u>

88,717

**CHEBOYGAN COUNTY ROAD COMMISSION**  
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**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005**

**NOTE 7 - CAPITAL ASSETS - (cont'd):**

	Balance January 1, 2005	Additions	Deletions	Removals	Balance December 31, 2005
Less – accumulated depreciation for –					
Buildings	\$ 665,355	\$ 150,456	\$ -	\$ -	\$ 815,811
Road Equipment	5,109,755	544,657	45,437	-	5,608,975
Shop Equipment	80,983	17,713	399	-	98,297
Office Equipment	52,371	10,497	-	-	62,868
Engineering Equipment	55,925	2,496	769	-	57,652
Yard and Storage	60,202	18,570	-	-	78,772
Infrastructure –					
Roads	4,143,211	429,445	-	( 122,906)	4,449,750
Bridges	1,553,479	104,783	-	( 23,947)	1,634,315
Depletable Assets	<u>15,332</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,332</u>
	<u>\$ 11,736,613</u>	<u>\$ 1,278,617</u>	<u>\$ 46,605</u>	<u>\$( 146,853)</u>	<u>\$ 12,821,772</u>
Total Capital Assets, being depreciated, net	<u>13,890,414</u>	<u>651,575</u>	<u>399</u>	<u>-</u>	<u>14,541,590</u>
Governmental activity capital assets net	<u>\$ 21,156,905</u>	<u>\$ 1,009,141</u>	<u>\$ 19,236</u>	<u>\$ -</u>	<u>\$ 22,146,810</u>

The State of Michigan does not allow depreciation to be recorded in the governmental fund statements of the Road Commission on salt shed and salt lagoon construction costs reimbursed by the State. However, the depreciation of \$7,337 on the salt barn is recorded in the government-wide statement of activities. The source of capital assets is from Road Commission operations.

**NOTE 8 - LONG-TERM LIABILITIES:**

The following is a summary of the changes in long-term liabilities of the Road Commission for the year ended December 31, 2005:

	Balance Jan. 1, 2005	Additions	Deletions	Balance Dec. 31, 2004	Due Within One Year
2004 MTF Bond	\$ 3,060,000	\$ -	\$ 55,000	\$ 3,005,000	\$ 85,000
Accrued vacation and sick	<u>327,610</u>	<u>2,755</u>	<u>-</u>	<u>330,365</u>	<u>-</u>
	<u>\$ 3,387,610</u>	<u>\$ 2,755</u>	<u>\$ 55,000</u>	<u>\$ 3,335,365</u>	<u>\$ 85,000</u>

**CHEBOYGAN COUNTY ROAD COMMISSION**  
**A Component Unit of Cheboygan County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005**

**NOTE 8 - LONG-TERM LIABILITIES - (cont'd):**

Significant details regarding outstanding long-term liabilities are presented below:

The County of Cheboygan, Michigan issued \$3,060,000 of Michigan Transportation Fund Bonds, Series 2004, dated May 1, 2004, pursuant to the provision of Act 51, Public Acts of Michigan of 1951, as amended. The Bonds are issued in anticipation of and are payable from monies derived from state collected taxes returned to the Road Commission from the Michigan Transportation Fund for highway construction, construction, and work incidental thereto pursuant to Act 51.

Principal on the bonds is due on February 1, 2006 through 2029 with interest due semi-annually on February 1 and August 1 at interest rates ranging from 3.00% to 4.75%.

The annual requirements to amortize the bond liability outstanding at December 31, 2004 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 85,000	\$ 124,068	\$ 209,068
2007	85,000	121,518	206,518
2008	90,000	118,892	208,892
2009	90,000	116,192	206,192
2010	90,000	113,403	203,403
2011-2015	500,000	514,619	1,014,619
2016-2020	600,000	405,383	1,005,383
2021-2025	740,000	259,524	999,524
2026-2029	<u>725,000</u>	<u>70,894</u>	<u>795,894</u>
	<u>\$ 3,005,000</u>	<u>\$ 1,844,493</u>	<u>\$ 4,849,493</u>

**Accrued Sick and Vacation -**

The accrued sick and vacation represents vested sick and vacation benefits due Road Commission employees upon termination of employment with the Road Commission. The balance at December 31, 2005, is \$310,690 for sick, and \$19,675 for vacations. All amounts vested have been accrued on the government-wide statements.

**CHEBOYGAN COUNTY ROAD COMMISSION**  
**A Component Unit of Cheboygan County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005**

**NOTE 9 - EMPLOYEE PENSION PLAN:**

**Plan Description -**

The Cheboygan County Road Commission participates in the Michigan Municipal Employees Retirement System (MERS); a multiple employer state-wide, public employee defined benefit pension plan created under Public Act 135 of 1945, and now operates under Public Act 220 of 1996, and the MERS Plan Document as revised. MERS was established to provide retirement, survivor and disability benefits on a voluntary basis to the State of Michigan's local government employees. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

**Funding Policy -**

The plan adopted by the Board of County Road Commissioners requires general employees to contribute 4.36% of their annual compensation with 0% to 2% required for salaried and supervisory employees. The Road Commission is required to contribute at an actuarially determined rate; the weighted average rate for 2005 was 16.79% for general employees, 43.16% for salaried employees. The contribution requirements of plan members and the Road Commission are established and may be amended by the Road Commission, depending on the MERS contribution program adopted by the Road Commission.

**Annual Pension Costs -**

For the year ended December 31, 2005, the Road Commission's annual pension cost of \$450,355 for MERS was equal to the Road Commission's required and actual contributions. The required contribution was determined as part of the December 31, 2003 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions include (a) a rate of return on the investment of present and future assets of 8% per year compounded annually, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, (c) additional projected salary increases ranging from 0% to 4.16% per year, depending on age, attributable to seniority/merit, and (d) the assumption that benefits will increase 2.5% per year (annually) after retirement, for persons under Benefit E-1 or E-2. The actuarial value of MERS assets was determined using techniques on a basis of evaluation method that assumes the funds earn the expected rate of return (8%) and includes as an adjustment to reflect market value. Unfunded actuarial accrued liabilities are amortized as a level percent of payroll over a period of 30 years for positive unfunded liabilities and 10 years for negative unfunded liabilities.

**CHEBOYGAN COUNTY ROAD COMMISSION**  
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**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005**

**NOTE 9 - EMPLOYEE PENSION PLAN - (cont'd):**

**Three-Year Trend Information**

Fiscal Year Ending <u>December 31,</u>	Annual Pension Costs (APC)	Percentage of APC <u>Contribution</u>	Net Pension <u>Obligation</u>
2003	\$ 450,361	100%	-
2004	432,047	100	-
2005	450,355	100	-

**Schedule of Funding Progress**

Actuarial Valuation <u>Date</u>	Actuarial Value of Assets <u>(a)</u>	Actuarial Accrued Liability (AAL) Entry Age <u>(b)</u>	Unfunded (Overfunded) Accrued Liability (UAAL) <u>(b-a)</u>	Funded Ratio (AAL) <u>(a/b)</u>	Covered Payroll <u>(c)</u>	UAAL as a % of Covered Payroll <u>[(b-a)/c]</u>
2002	7,669,330	11,695,052	4,025,722	66	1,934,672	208
2003	8,117,500	12,858,596	4,741,096	63	1,866,822	254
2004	8,527,856	13,782,867	5,255,011	62	1,937,668	271

**NOTE 10 - POSTEMPLOYMENT BENEFITS:**

In addition to the pension benefits described in Note 9, the Cheboygan County Road Commission provides postemployment health care to eligible employees who retire from the Road Commission on or after attaining retirement age with at least ten years of service. Expenditures for postemployment health care benefits are recognized on a pay-as-you-go basis. For the year ended December 31, 2005 these costs amounted to approximately \$419,976 with 35 eligible participants.

**NOTE 11 - ADVANCES:**

Advances of \$459,897 at December 31, 2005, are advanced by the State of Michigan for working capital of \$150,899 and equipment purchases of \$308,998 under a road maintenance contract the Road Commission has with the Michigan Department of Transportation.

Both advances are adjusted annually by the State and must be repaid if the maintenance contract is canceled.

**NOTE 12 - SUMMARY OF DISCLOSURE OF SIGNIFICANT CONTINGENCIES:**

In the normal course of its operations, the Cheboygan County Road Commission often becomes a party to various claims and lawsuits. In the opinion of the Road Commission's legal counsel, if any of these claims should result in an unfavorable resolution to the Road Commission, the Road Commission's liability would be limited to its deductible under insurance policies.



**CHEBOYGAN COUNTY ROAD COMMISSION**  
**A Component Unit of Cheboygan County, Michigan**

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005**

**NOTE 12 - SUMMARY OF DISCLOSURE OF SIGNIFICANT CONTINGENCIES - (cont'd):**

The insurer would pay the losses, and there should be no material effect on the financial position of the Road Commission.

Also, as part of its trunkline maintenance agreement with the State of Michigan, the Road Commission's costs charged to the State are subject to audit. The amounts, if any, which may have to be paid back to the State cannot be determined at this time, although the Road Commission expects such amounts, if any, to be immaterial.

**NOTE 13 - RISK MANAGEMENT:**

The Road Commission is a member of the Michigan County Road Commission Self-Insurance Pool established pursuant to the laws of the State of Michigan, which authorize contracts between municipal corporations (inter-local agreements) to form group self-insurance pools, and to prescribe conditions to the performance of these contracts.

The Michigan County Road Commission Self-Insurance Pool was established for the purpose of making a self-insurance pooling program available for Michigan County Road Commissions which includes, but is not limited to, general liability coverages, auto liability coverages, property insurance coverages, stop loss insurance protection, claims administration, and risk management and loss control services pursuant to Michigan Public Act 138 of 1982.

The Cheboygan County Road Commission pays an annual premium to the Pool for property (buildings and contents) coverage, automobile and equipment liability, errors or omissions liability and bodily injury, property damage and personal injury liability. The agreement for the formation of the Pool provides that the Pool will be self-sustaining through member premiums and will purchase both specific and aggregate stop-loss insurance to the limits determined necessary by the Pool Board.

The Road Commission is also a member of the County Road Association Self-Insurance Fund for workers' compensation self-insurance. The fund is a municipal self-insurance entity operating within the laws of the State of Michigan. The fund has entered into reinsurance agreements providing for loss coverage in excess of amounts to be retained by the fund.

The Road Commission continues to carry commercial insurance for employee health and accident insurance, but has opted to participate in a self-insurance program that bases premiums on the Road Commission experience and provides for stop loss coverage. Premiums are adjusted every three months.

## **SUPPLEMENTARY INFORMATION**

**CHEBOYGAN COUNTY ROAD COMMISSION****A Component Unit of Cheboygan County****DETAIL SCHEDULE OF REVENUES AND OTHER SOURCES  
GENERAL OPERATING FUND  
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
<b>Revenues:</b>		
Permits -	<u>\$ 57,114</u>	<u>\$ 51,395</u>
Federal Sources -		
Bridge	22,041	165,254
D Funds	240,705	214,879
Surface Transportation Program (STP)	<u>365,811</u>	<u>727,587</u>
	<u>628,557</u>	<u>1,107,720</u>
State Sources -		
Motor Vehicle Highway Funds - Act 51 -		
Engineering	10,000	10,000
Primary roads	1,933,556	2,032,114
Local roads	1,732,890	1,812,528
Forest Road Money	119,637	119,637
Snow removal	145,537	137,485
Critical bridge	271,044	30,985
Rural primary money ( Category D funds )	<u>132,161</u>	<u>175,202</u>
	<u>4,344,825</u>	<u>4,317,951</u>
Local Sources -		
Township contributions	386,010	539,277
Other contributions	<u>35,406</u>	<u>95,522</u>
	<u>421,416</u>	<u>634,799</u>
Charges for Services -		
Trunkline maintenance & nonmaintenance	1,912,596	1,989,408
Salvage Sales	<u>3,151</u>	<u>4,665</u>
	<u>1,915,747</u>	<u>1,994,073</u>
Interest	<u>23,700</u>	<u>20,377</u>
Other -		
Gain (loss) on equipment disposal	166	( 2,881)
Sundry refunds	<u>108</u>	<u>-</u>
	<u>274</u>	<u>( 2,881)</u>
Total Revenues	7,391,633	8,123,434
<b>Other Financing Sources:</b>		
Bond Proceeds	<u>-</u>	<u>3,060,000</u>
Total Revenues and Other Sources	<u>\$ 7,391,633</u>	<u>\$ 11,183,434</u>

**CHEBOYGAN COUNTY ROAD COMMISSION****A Component Unit of Cheboygan County****DETAIL SCHEDULE OF EXPENDITURES  
GENERAL OPERATING FUND  
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
<b>Expenditures:</b>		
Preservation/ structural improvements -		
Primary roads and structures	\$ 755,217	\$ 1,313,273
Local roads and structures	949,326	977,351
	<u>1,704,543</u>	<u>2,290,624</u>
Maintenance -		
Primary roads and structures,		
winter maintenance and traffic control	1,224,342	1,313,701
Local roads and structures,		
winter maintenance, and traffic control	1,789,322	1,913,311
	<u>3,013,664</u>	<u>3,227,012</u>
State Maintenance -		
Trunkline maintenance and nonmaintenance	<u>1,867,880</u>	<u>1,889,092</u>
Equipment -		
Direct	1,455,488	1,668,411
Indirect	761,968	596,388
Operating	310,008	289,704
Less - equipment rental	( 1,931,236)	( 2,104,008)
	<u>596,228</u>	<u>450,495</u>
Administrative -		
Administration	408,378	531,978
Less -		
State trunkline overhead	( 178,025)	( 174,513)
Purchase discounts and other	( 7,876)	( 5,728)
	<u>222,477</u>	<u>351,737</u>
Capital Outlay -		
Land and Improvements	-	117,400
Buildings	118,029	2,515,900
Equipment	446,349	363,753
Yard and storage	-	100,229
Less -		
Depreciation	( 744,387)	( 727,532)
Equipment Retirements	( 399)	( 4,501)
	<u>( 180,408)</u>	<u>2,365,249</u>
Debt Service -		
Principal retirement	55,000	-
Interest	157,916	( 3,528)
Issuance cost	-	92,969
	<u>212,916</u>	<u>89,441</u>
Total Expenditures	<u>\$ 7,437,300</u>	<u>\$ 10,663,650</u>

**CHEBOYGAN COUNTY ROAD COMMISSION****A Component Unit of Cheboygan County****SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES****BY FUND BALANCE SUB-ACCOUNTS****GENERAL OPERATING FUND****FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>Primary</u>	<u>Local</u>	<u>County</u>	<u>Total</u>
<b>Revenues:</b>				
Permits	\$ -	\$ -	\$ 57,114	\$ 57,114
Intergovernmental -				
Federal Sources	529,883	98,674	-	628,557
State Sources	2,147,747	2,197,078	-	4,344,825
Local Sources	16,030	398,924	6,462	421,416
Charges for services	-	-	1,915,747	1,915,747
Interest	-	-	23,700	23,700
Other	-	-	274	274
Total Revenues	<u>2,693,660</u>	<u>2,694,676</u>	<u>2,003,297</u>	<u>7,391,633</u>
<b>Expenditures:</b>				
Preservation/ structural improvements	755,217	949,326	-	1,704,543
Maintenance	1,224,342	1,789,322	-	3,013,664
State maintenance	-	-	1,867,880	1,867,880
Equipment - net	136,298	287,263	172,667	596,228
Administrative - net	93,342	129,135	-	222,477
Capital outlay - net	-	-	( 180,408)	( 180,408)
Debt Service -				
Interest and issuance costs	-	-	212,916	212,916
Total Expenditures	<u>2,209,199</u>	<u>3,155,046</u>	<u>2,073,055</u>	<u>7,437,300</u>
Excess of revenues and other sources over (under) , expenditures before optional transfers	484,461	( 460,370)	( 69,758)	( 45,667)
Optional transfers	<u>( 600,000)</u>	<u>600,000</u>	<u>-</u>	<u>-</u>
Excess of revenues over (under) expenditures after optional transfers	( 115,539)	139,630	( 69,758)	( 45,667)
Fund Balance at January 1, 2005	<u>889,300</u>	<u>450,859</u>	<u>651,397</u>	<u>1,991,556</u>
Fund Balance at December 31, 2005	<u>\$ 773,761</u>	<u>\$ 590,489</u>	<u>\$ 581,639</u>	<u>\$ 1,945,889</u>

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of County Road Commissioners  
of Cheboygan County  
Indian River, Michigan

We have audited the financial statements of Cheboygan County Road Commission as of and for the year ended December 31, 2005, and have issued our report thereon, dated March 22, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered Cheboygan County Road Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weakness. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Cheboygan County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management and the Board of County Road Commissioners of Cheboygan County, Michigan and is not intended to be and should not be used by anyone other than these specified parties.



Certified Public Accountants

March 22, 2006